

**University of Ottawa
Department of Economics**

ECO1102A - INTRODUCTION TO MACROECONOMICS

Final Examination

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You may not consult with any written documents whatsoever, and no conversation is permitted while the examination is in progress. No programmable calculators or palm pilots are permitted. It is forbidden to look at other students' papers. There are 100 multiple choice questions, and the allotted time is three hours. It may not necessarily be the case that 3 of the responses are totally wrong, and one of them is unambiguously correct. In such situations, select the best answer. Respond to the questions on the scan-tron sheet. If you use red ink, the computer cannot your scores. Please grid in your name and your student number by filling in the appropriate ovals in each column. You must grid in the ovals below each digit of your student number, and below each letter of your name.

1. Increasing potential GDP (the natural rate of GDP) is:

- a) always beneficial since living standards rise
- b) always too costly since pollution and resource depletion rise
- c) beneficial only if pollution rises at 5 percent a year
- d) beneficial if the benefits of rising living standards outweigh the costs of higher pollution and resource depletion

D

2. Including discouraged workers in the measured (official) unemployment rate would:

- a) not change the measured unemployment rate
- b) lower the measured unemployment rate
- c) lower the labour force
- d) raise the measure unemployment rate

D

3. An unpredictable inflation causes problems for the macroeconomy because:

- a) it increases the variability of business cycles
- b) the stock market falls in value
- c) resources are diverted from productive activities to forecasting inflation
- d) the value of money starts rising

C

4. If the Consumer Price Index changes from 120 in Year 1 to 150 in Year 2, the rate of inflation between the two years is:

- a) 20 percent

- b) 25 percent
- c) 30 percent
- d) not precisely determinable from the data

B

5. Which of the following statements is true?
- a) If inflation is high, then the real rate of interest must be low
 - b) If the nominal interest rate is greater than the rate of inflation, then the real interest rate is positive.
 - c) If the real interest rate is less than the nominal interest rate, then inflation must be negative.
 - d) If the nominal interest rate is high, then the real interest rate must be high.

B

6. When comparing the economy's aggregate income or output in two different time periods:
- a) Nominal GDP should be used.
 - b) Real GDP should be used.
 - c) Potential GDP should be used
 - d) None of these statements apply.

B

7. Which of the following activities would not be included in the calculation of Gross Domestic Product?
- a) Commissions earned by real estate agents from selling used homes
 - b) The sale of used houses
 - c) Buying a life insurance policy
 - d) Buying legal advice

B

8. All of the following statements about inflation are true except that:
- a) inflation reduces the real value of nominal debt
 - b) inflation reduces the real value of fixed money incomes
 - c) the purchasing power of money is positively related to the price level
 - d) a fully anticipated inflation has no real economic effects

C

9. Which of the following is *not* a reason for GDP incorrectly measuring the value of total output?
- a) The fact that leisure time contributes to economic well-being
 - b) The existence of non-market activities
 - c) The existence of the underground economy
 - d) Capital consumption (depreciation)

D

10. The underground economy is defined as all economic activity that:
- a) produces intermediate goods or services
 - b) is not taxed
 - c) is legal but unreported or is illegal

d) has negative social value

C

11. Which of the following is a leakage from the circular flow of income?

- a) Exports
- b) Investment
- c) Saving
- d) Government expenditures

C

12. In 1970, a particular basket of goods and services cost \$5,000 in 1970 dollars. If the same basket now costs \$7,000 in current dollars, then it can be concluded that between 1970 and now, prices have changed:

- a) by 80 percent
- b) by 50 percent
- c) by 40 percent
- d) by 10 percent

C

13. The natural rate of unemployment is:

- a) The rate at which unemployment equals 0 percent
- b) The same as the rate of cyclical unemployment
- c) The rate at which cyclical unemployment equals 6 percent
- d) The rate at which cyclical unemployment equals 0 percent

D

14. Suppose that next year 300,000 existing jobs in the economy are eliminated and 400,000 new jobs are created. The unemployment rate will rise over that year:

- a) under no circumstances
- b) if fewer than 100,000 people join the labour force
- c) if more than 100,000 people join the labour force
- d) If more than 100,000 people drop out of the labour force

C

15. Fill in the blank in the following sentence. Technological changes have caused workers who produce such things as slide rules and manual typewriters to become _____ unemployed.

- a) frictionally
- b) structurally
- c) cyclically
- d) voluntarily

B

16. Unemployment will increase if there is an increase in the number of people:

- a) withdrawing from the labour force
- b) recalled from layoffs
- c) leaving jobs to go to school
- d) leaving school in order to search for work

D

17. Fill in the blank in the last sentence. Suppose that in a certain country, the eastern oil fields suddenly stop producing, causing oil companies to shift activities to their western fields. This is bound to cause some _____ unemployment.

- a) frictional
- b) structural
- c) cyclical
- d) seasonal

A

18. Historically, nominal GDP has risen faster than real GDP because:

- a) the general price level has risen
- b) the general price level has fallen
- c) improvements in product quality have not been reflected in prices
- d) exports have risen more rapidly than imports

A

19. The aggregate demand (AD) curve relates the:

- a) Composite price level to real national income (Y)
- b) Composite price level to $C + I + G$ expenditures
- c) Real national income to the money supply
- d) interest rate to real national income

A

20. The short-run aggregate supply (SRAS) curve will shift as a result of a change in any of the following except:

- a) the cost of capital
- b) labour productivity
- c) the wage rate
- d) the price level

D

21. Suppose there is a rise in aggregate demand (AD) and, simultaneously, a fall in short-run aggregate supply (SRAS). The new equilibrium will be characterized by:

- a) A rise in real GDP, but price level changes will be indeterminate
- b) A rise in real GDP and a rise in the price level
- c) A rise in the price level, but change in real GDP will be indeterminate
- d) A fall in the price level and a rise in real GDP.

C

22. The long-run aggregate supply (LRAS) curve shows that:

- a) potential GDP will rise as prices fall
- b) potential GDP will fall as prices rise
- c) potential GDP has no relationship with the price level.
- d) prices will always rise in the long run.

C

23. Suppose that the short-run aggregate supply (SRAS) curve is upward-sloping, but is relatively steep. If there is an increase in expenditures (such as exports or government purchases of goods and services), the result will be:

- a) the price level will increase slightly, and real GDP will significantly increase
- b) the price level will increase slightly, and real GDP will significantly decrease
- c) the price level will increase sharply, and there will be a slight increase in real GDP
- d) the price level will increase sharply, and real GDP will not change

C

24. The short-run aggregate supply curve is the relationship between price level and the quantity of real GDP supplied, holding constant.

- a) the level of government expenditures
- b) the wealth effect
- c) the prices of productive resources (factors of production)
- d) the composite price level

C

25. Which of the following statements concerning government transfer payments is true?

- a) They are included in the government expenditure (G) category in GDP
- b) They comprise all payments made to households by governments.
- c) They comprise only those payments made to households by the government that are not made in return for the services of factors of production.
- d) They lead directly to an increase in output.

C

26. Which of the following statements concerning investment expenditure and investment goods is false?

- a) An accumulation of inventories counts as current investment.
- b) The total amount of capital goods in a country is called the capital stock
- c) Net investment is equal to gross investment minus depreciation.

d) Depreciation refers to investment activity to increase the economy's total stock of capital.

D

27. If the marginal propensity to consume and the marginal propensity to import are both zero, then value of the multiplier is:

- a) zero
- b) infinite
- c) unity
- d) irrelevant because GDP would be zero

C

28. Fill in the blank in the following sentence. Government outlays have a slight automatic effect on national income as _____ in a recession.

- a) purchases of goods and services rise
- b) purchases of goods and services fall
- c) transfer payments rise
- d) transfer payments fall

C

29. Which of the following is an example of an *expansionary* fiscal policy?

- a) Increasing the money supply
- b) Increasing taxes
- c) Decreasing transfer payments
- d) Increasing government expenditures on goods and services.

D

30. Which of the following transactions would increase monetary aggregate M1?

- a) The lending of \$5,000 by a commercial bank
- b) A withdrawal of \$500 in cash from a checking account
- c) A repayment of \$100 on a bank loan
- d) A deposit of \$1,000 cash into a fixed term time deposit account

A

31. If the public puts currency into non-chequable savings (time) deposits at chartered banks, then:

- a) both M1 and M2 increase
- b) M2 does not change
- c) M1 does not change
- d) Both M1 and M2 decrease

B

32. If households and firms find that their holdings of real, liquid money balances are less than desired, they will:

- a) sell financial assets (bonds), which will cause interest rates to increase
- b) sell financial assets (bonds), which will cause interest rates to decrease
- c) buy financial assets (bonds), which will cause interest rates to increase
- d) buy financial assets (bonds), which will cause interest rates to decrease

A

33. If the inflation rate increases by 3 percent, and the nominal interest rate increases by 2 percent, then the:

- a) real interest rate increases
- b) opportunity cost of holding money increases
- c) opportunity cost of spending increases
- d) consumption expenditures decrease

B

34. An increase in the real interest rate will:

- a) decrease consumption expenditures
- b) increase investment expenditures
- c) cause a depreciation of the exchange rate
- d) increase net exports

A

35. All of the following would cause a given change in the money supply to have a relatively small effect on equilibrium real GDP except:

- a) a steep SRAS curve
- b) a flat money demand curve
- c) a steep money demand curve
- d) investment expenditures that are insensitive to interest rate changes

C

36. All other things held constant, if the central bank sells \$500,000 worth of government securities, the money supply will:

- a) contract by \$500,000
- b) contract by more than \$500,000
- c) expand by \$500,000
- d) expand by more than \$500,000

B

37. Expansionary monetary policy by the Bank of Canada could include:

- a) Raising the target for the overnight rate
- b) Increasing government expenditure
- c) Lowering the demand for money balances
- d) open-market operations in order to decrease the rate of interest

D

38. Assume that initially the target reserve ratio is 10 percent and chartered banks have no excess reserves. The money supply could increase by a maximum of \$1,000,000 if the Bank of Canada would:
- a) buy \$50,000 of securities from chartered banks
 - b) sell \$1,000,000 of securities to chartered banks
 - c) buy \$1,000,000 of securities from chartered banks
 - d) buy \$100,000 of securities from chartered banks

C

39. If the desired reserve ratio in the banking system is 20%, there is no currency drain, and all excess reserves are lent out, then a new deposit of \$1 will lead to a cumulative expansion of the money supply of:
- a) \$20
 - b) 20 cents
 - c) \$1.20
 - d) \$5

D

40. All of the following events occur during the transmission mechanism (between the money market and the goods and services market) coming from a rise in the money supply except
- a) an excess demand for money
 - b) a fall in the interest rate
 - c) a rise in the level of investment spending
 - d) a rightward shift in the AD function

A

41. Crowding out refers to the effect of government deficit spending on:
- a) The exchange rate and therefore the level of the supply of real money
 - b) The interest rate and therefore money demand
 - c) The exchange rate and therefore investment demand
 - d) The interest rate and therefore investment demand

D

42. All other factors held constant, what is the relationship between the interest rate, the exchange rate, and net exports?

- a) An increase in the interest rate causes the currency to appreciate (gain value), which causes net exports to fall.
- b) An increase in the interest rate causes the currency to depreciate (lose value), which causes net exports to fall.
- c) An increase in the interest rate causes the currency to depreciate (lose value), which causes net exports to rise
- d) An increase in the interest rate causes the currency to appreciate (gain value), which causes net exports to rise

A

43. Roommates Grace and Kelly are sharing household chores and think they have an even exchange. Other things the same, if instead they paid each other for the chores the other did, the official level of GDP would:

- a) fall.
- b) rise.
- c) be unaffected because paid or not, household chores are not included in GDP.
- d) be unaffected because paid or not, household chores are included in GDP.

B

44. When the consumer price index rises, the typical family:

- a) has to spend more dollars to maintain the same standard of living.
- b) can spend fewer dollars to maintain the same standard of living.
- c) finds that its standard of living is not affected.
- d) can offset the effects of rising prices by saving more.

A

45. Consider the following table for the country of Ophir:

Year	Nominal GDP	GDP Deflator
2004	\$4000	100
2005	\$4100	105
2006	\$4200	110

From this information we can conclude that real GDP was higher in:

- a) 2006 than in 2005, and real GDP in 2005 was higher than in 2004.
- b) 2005 than in 2004, and real GDP in 2005 was higher than in 2006.
- c) 2004 than in 2005, and real GDP in 2005 was higher than in 2006.
- d) 2004 than in 2006, and real GDP in 2005 was higher than in 2004.

C

46. Suppose that the CPI is currently 200 and was 40 in 1950. Then according to the CPI, \$1 in 1950 purchased the same number of goods and services as:

- a) \$5 today.
- b) \$4 today.
- c) \$3 today.
- d) None of the above is correct.

A

47. In Japan in 2000 nominal interest rates were 1.5 percent and the inflation rate was -0.5 percent. The real interest rate was:

- a) -2 percent.
- b) -1 percent.
- c) 1 percent.

d) 2 percent.

D

48. A nation's standard of living is measured by its:

- a) real GDP.
- b) real GDP per person.
- c) nominal GDP.
- d) nominal GDP per person.

B

49. The average amount of goods and services produced from each hour of a worker's time is called:

- a) per capita GDP
- b) The hourly wage
- c) Productivity
- d) human capital

C

50. Which of the following is considered human capital?

- a) The comfortable chair in your dorm room where you read economics texts
- b) The amount you get paid each week to work at the library
- c) The things you have learned this semester
- d) any capital goods that require a human to be present to operate

C

51. In the long run, a higher saving rate:

- a) cannot increase the capital stock.
- b) means that people must consume less in the future.
- c) increases productivity.
- d) None of the above are correct.

C

52. In the context of long-term economic growth, the logic behind the catch-up effect is that:

- a) workers in countries with low incomes will work more hours than workers in countries with high incomes.
- b) the capital stock in rich countries deteriorates at a higher rate because it already has a lot of capital.
- c) new capital adds more to production in a country that doesn't have much capital than in a country that already has much capital.
- d) The lesser developed countries have better research and development activities

C

53. Which of the following people purchased the correct asset to meet their objective?
- a) Michelle wanted to be a part owner of Mamma Rosa's Pizza, so she purchased a bond issued by Mamma Rosa's Pizza.
 - b) Tim wanted a high return, even if it meant taking some risk, so he purchased stock issued by Specific Electric instead of bonds issued by Specific Electric.
 - c) Jennifer wanted to buy equity in Honda, so she purchased bonds sold by Honda.
 - d) All of the above are correct.

B

54. Recently there have been violent protests against the World Bank and the World Trade Organization. The protesters argue that these institutions promote free trade and also encourage corporations in rich countries to invest in poor countries. The protesters contend that these practices make rich countries richer and poor countries poorer. An economist would:

- a) disagree with the protesters because these practices will help make both rich and poor countries richer.
- b) disagree with the protesters about free trade, but would agree with the protesters about corporate investment.
- c) disagree with the protesters about corporate investment, but would agree with the protesters about free trade.
- d) agree with the protesters.

A

55. In a closed economy with no foreign trade, national saving is:

- a) usually greater than investment.
- b) equal to investment.
- c) Usually less than investment because of the leakage of taxes.
- d) always less than investment.

B

56. Economists sometimes differ in their views of the role of the government in promoting economic growth. According to the text, at the very least, the government should:

- a) lend support to the invisible hand by maintaining property rights and political stability.
- b) limit foreign investment to industries that don't already exist.
- c) Impose trade restrictions to protect the interests of domestic producers and consumers.
- d) subsidize key industries.

A

57. Which of the following statements is most likely to be correct?

- a) A general, persistent decline in stock prices is a signal that the economy is about to enter a boom period because people will be able to buy stock for less money.
- b) A general, persistent decline in stock prices is a signal that the economy is about to enter a recession because low stock prices may mean that people are expecting low

corporate profits.

- c) A general, persistent decline in stock prices does not tell us anything about the business cycle because stock prices can fall for many reasons.
- d) A general, persistent decline in stock prices is a signal that the economy is about to enter a recession because low stock prices mean that corporations have had low profits in the past.

B

58. Who would *not* be included in the labour force?

- a) Jay, who is on temporary layoff
- b) Mike, who has retired and is not looking for work
- c) Jane, who does not have a job, but has applied for several in the last week
- d) None of the above are included in the labour force.

B

59. The country of Meditor uses the merit as its currency. Recent national income statistics showed that it had GDP of 700 million merits, no government transfer payments, taxes of 210 million merits, a budget surplus of 60 million merits, and investment of 100 million merits. Meditor is a closed economy. What were its consumption and government expenditures on goods and services?

- a) 450 million merits and 150 million merits
- b) 410 million merits and 150 million merits
- c) 330 million merits and 270 million merits
- d) 290 million merits and 270 million merits

C

60. If Parliament reduced the tax rate that is applied to interest income, investment:

- a) would increase and saving would decrease.
- b) would decrease and saving would increase.
- c) and saving would increase.
- d) and saving would decrease.

C

61. Complete the following sentence. Cyclical unemployment refers to:

- a) Unemployment that results from workers spending time jobless between holding jobs
- b) how often a worker is likely to be employed during her lifetime.
- c) year-to-year fluctuations of unemployment around its natural rate.
- d) long-term trends in unemployment.

C

62. Which of the following causes of unemployment is not associated with a wage rate above the equilibrium level?

- a) Wages negotiated by unions
- b) efficiency wages
- c) job search
- d) minimum-wage laws

C

63. The unemployment rate in Canada in March was:

- a) Below 5.5 percent.
- b) Between 5.5 and 6.5 percent.
- c) Between 6.5 and 7.5 percent.
- d) Above 7.5 percent

D

64. The Bank of Canada can decrease the money supply by conducting open market:

- a) sales and raising the bank rate.
- b) sales and lowering the bank rate.
- c) purchases and raising the bank rate.
- d) purchases and lowering the bank rate.

A

65. In the nineteenth century when there were often bank runs caused by crop failures, banks would make relatively fewer loans and hold relatively more excess reserves. By itself, these actions by the banks should have:

- a) increased the money multiplier and the money supply.
- b) decreased the money multiplier and increased the money supply.
- c) increased the money multiplier and decreased the money supply.
- d) decreased both the money multiplier and the money supply.

D

66. According to the classical dichotomy, which of the following is *not* influenced by monetary factors?

- a) nominal GDP and nominal interest rates
- b) real wages and real GDP
- c) the price level and nominal GDP
- d) None of the above are correct.

B

67. Velocity in the country of Shem is always stable. In 2002, the money supply was \$200 billion, and the GDP price deflator was four times as high as it was in the base year. In 2003, the money supply increased to \$240 billion, the price level increased by 15 percent, and nominal GDP equalled \$1,200 billion. By how much did real GDP increase between 2002 and 2003?

- a) About 20 percent

- b) About 5 percent
- c) About 2 percent
- d) There is not enough information to answer the question.

B – this question is hard

68. A country has \$80 million of saving and domestic investment of \$30 million. Net exports are:

- a) -\$50 million.
- b) \$50 million.
- c) \$110 million.
- d) -\$110 million

B

69. You put money in an account and earn a real interest rate of 8 percent. Inflation is 3 percent, and your marginal tax rate is 20 percent. What is your after-tax real rate of interest?

- a) 2.8 percent
- b) 3.8 percent
- c) 4.8 percent
- d) 5.8 percent

D

70. A British pharmacy buys drugs from a Canadian company and pays for them with British pounds. This transaction:

- a) increases British net exports, and increases Canadian capital outflow.
- b) increases British net exports, and decreases Canadian capital outflow.
- c) decreases British net exports, and increases Canadian capital outflow.
- d) decreases British net exports, and decreases Canadian capital outflow.

C

71. Complete the following sentence. The nominal exchange rate is the:

- a) Nominal interest rate in one country divided by the nominal interest rate in the other country.
- b) rate at which a person can trade the currency of one country for the currency of another.
- c) price of a good in one country divided by the price of the same good in another.
- d) The number of goods a person can trade for a similar good in another country.

B

72. When the yen appreciates relative to the dollar,

- a) The Canadian trade deficit with Japan will rise.
- b) The Canadian trade deficit with Japan will fall.
- c) The Canadian trade deficit with Japan will be unchanged.

d) None of the above necessarily happens.

B

73. Which of the following events would be consistent with purchasing-power parity?

- a) The price level in Canada rises more rapidly than that in Ireland and the real exchange rate defined as Irish goods per unit of Canadian goods stays the same.
- b) The money supply in Canada rises more rapidly than in Egypt and the nominal exchange rate defined as Egyptian pounds per dollar falls.
- c) Earl, a worldwide traveler, looks at exchange rates and worldwide breakfast prices one morning and finds that whatever country he decides to go to he can convert \$5 into enough local currency to buy the same breakfast.
- d) All of the above are correct.

D – but this question is poorly designed. I accepted all answers.

74. By stating that Canadian money markets are characterized by perfect capital mobility, we mean:

- a) that Canadians do not have access to world capital markets.
- b) that foreigners have full access to Canadian capital markets, but not vice versa
- c) that Canadians have full access to world financial markets, but not vice versa
- d) that foreigners have full access to Canadian capital markets, and that Canadians have full access to world financial markets

D

75. If the Canadian real interest rate is below the world real interest rate, then:

- a) Canadian savers would prefer to buy foreign assets.
- b) Canadian savers would prefer to buy Canadian assets.
- c) Canadian savers would sell their Canadian assets and buy foreign assets instead.
- d) Canadian savers would sell their foreign assets and buy Canadian assets instead.

A

76. During a recession the economy experiences:

- a) rising employment and income.
- b) rising employment and falling income.
- c) rising income and falling employment.
- d) falling employment and income.

D

77. In a recession, compared to the percentage decline in GDP, investment spending:

- a) falls by a larger percentage.
- b) falls by about the same percentage as GDP.
- c) falls by a smaller percentage than GDP.

d) falls but the percentage change is sometimes much larger and sometimes much smaller.

A

78. Which of the following is not included in aggregate demand?

- a) purchases of stock and bonds
- b) purchases of services such as visits to the doctor
- c) purchases of capital goods such as equipment in a factory
- d) purchases by foreigners of consumer goods produced in Canada

A

79. All other factors held constant, an increase in the composite price level causes the:

- a) The dollar to depreciate in real terms, and net exports to increase.
- b) The dollar to appreciate in real terms, and net exports to decrease.
- c) The dollar to depreciate in real terms, and net exports to increase.
- d) The dollar to appreciate in real terms, and net exports to decrease.

B

80. When taxes increase, consumption decreases as shown by:

- a) a movement to the left along a given aggregate demand curve.
- b) shifting aggregate demand to the left.
- c) shifting aggregate supply the left.
- d) which does none of the above.

B

81. If countries that imported goods and services from Canada went into recession, we would expect that Canadian net exports would:

- a) Rise, making aggregate demand shift right.
- b) Rise, making aggregate demand shift left.
- c) Fall, making aggregate demand shift right.
- d) Fall, making aggregate demand shift left.

D

82. The long-run aggregate supply curve shifts to the left if:

- a) immigration from abroad increases.
- b) The capital stock increases.
- c) technology advances.
- d) None of the above are correct.

D

83. An increase in the wage level shifts short-run aggregate supply to the:

- a) right, and an increase in the actual price level shifts short-run aggregate supply to the right.
- b) right, and an increase in the actual price level does not shift short-run aggregate supply.
- c) Left, and an increase in the actual price level shifts short-run aggregate supply to the left.
- d) Left, and an increase in the actual price level does not shift short-run aggregate supply.

D

84. Which of the following shifts both short-run and long-run aggregate supply right?

- a) an increase in the actual price level
- b) an decrease in the prices of productive factors
- c) an increase in the capital stock
- d) None of the above is correct.

C

85. The sticky wage theory of the short-run aggregate supply curve says that when prices fall unexpectedly, the real wage:

- a) rises, so employment rises.
- b) rises, so employment falls.
- c) falls, so employment rises.
- d) falls, so employment falls.

B

86. Which of the following would cause prices to fall and output to rise in the short run?

- a) Short-run aggregate supply shifts right.
- b) Short-run aggregate supply shifts left.
- c) Aggregate demand shifts right.
- d) Aggregate demand shifts left.

A

87. An economic contraction caused by a shift in aggregate demand remedies itself over time as wages and other factor prices:

- a) Rise, shifting aggregate demand right.
- b) Rise, shifting aggregate demand left.
- c) Fall, shifting short-run aggregate supply right.
- d) Fall, shifting short-run aggregate supply left.

C

88. Suppose a shift in aggregate demand creates an economic contraction. If policymakers can respond with sufficient speed and precision, they can offset the initial shift by shifting:

- a) Short-run aggregate supply right.
- b) Short-run aggregate supply left.
- c) aggregate demand right.

d) aggregate demand left.

C

89. Which of the following did not happen during the onset of the Great Depression?

- a) The money supply fell as households took money out of banks.
- b) The Bank of Canada was abolished.
- c) The real GDP per person fell about 30 percent.
- d) Bankers began holding greater reserves.

B

Scenario 1. The economy is in long-run equilibrium. Suddenly, due to improved international relations and the increased confidence of policy makers, citizens become more optimistic about the future and stay this way for a long time.

90. **Refer to Scenario 1.** In the short run what happens to the price level and real GDP?

- a) both the price level and real GDP rise.
- b) both the price level and real GDP fall.
- c) The price level rises and real GDP falls.
- d) The price level falls and real GDP rises.

A

91. Which of the following is not an automatic stabilizer?

- a) The minimum wage
- b) The unemployment compensation system
- c) The federal income tax
- d) The welfare system

A

92. If there is bad weather for farming or some other temporary decrease in the availability of raw materials:

- a) Short-run aggregate supply shifts right.
- b) Real GDP falls in the short run.
- c) Composite price falls in the short run.
- d) None of the above is correct.

B

93. Which of the following would cause stagflation?

- a) aggregate demand shifts right
- b) aggregate demand shifts left
- c) Short-run aggregate supply shifts right
- d) Short-run aggregate supply shifts left

D

94. When production costs rise,

- a) The short-run aggregate supply curve shifts to the right.
- b) The short-run aggregate supply curve shifts to the left.
- c) The aggregate demand curve shifts to the right.
- d) The aggregate demand curve shifts to the left.

B

95. Which of the following shifts aggregate demand right?

- a) an increase in government expenditures or a decrease in the price level
- b) a decrease in government expenditures or an increase in the price level
- c) an increase in government expenditures, but not a change in the price level
- d) a decrease in the price level, but not an increase in government expenditures

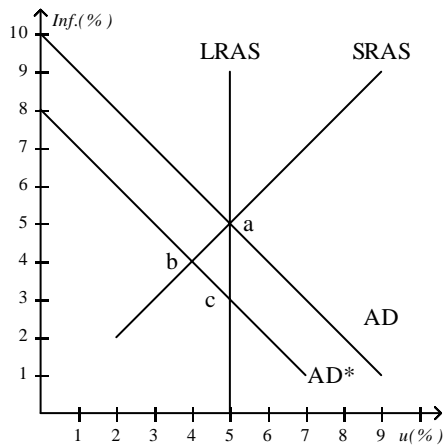
C

96. Which of the following policies would someone who wants the government to follow an active stabilization policy recommend when the economy is experiencing unemployment above the natural rate?

- a) decrease the money supply
- b) Increase government expenditures
- c) Increase taxes
- d) All of the above are correct.

B

Figure 1



97. **Refer to Figure 1.** Which of the following is true?

- a) A wave of optimism could move the economy from point a to point b.
- b) If aggregate demand moves from AD to AD^* the economy will stay at point b in both the short and long run.
- c) It is possible that either fiscal or monetary policy might have caused the shift from AD to AD^* .
- d) All of the above are correct.

C

98. **Refer to Figure 1.** Suppose the economy is at point b. Which of the following is true in the long run if there is no policy intervention?

- a) The economy will stay at point b.
- b) The AD curve will shift back to its original position and the economy will move back to point a.
- c) Price expectations and wages will be revised downward, the SRAS curve will shift right, and the economy will move to point c.
- d) Price expectations and wages will be revised upward, the SRAS curve will shift right, and the economy will move to point c.

C

99. **Refer to Figure 1.** Suppose the economy is at point b. Suppose you are the Governor of the Bank of Canada, and your objective is to move the unemployment rate to its natural rate. What would you do?

- a) Increase the bank rate.
- b) Lower the bank rate.
- c) Decrease the level of liquidity in the banking sector
- d) Do nothing as the unemployment rate is already at its natural rate.

B

100. **Refer to Figure 1.** Suppose the economy is at point b. Suppose you are the Minister of Finance, and your objective is to move the unemployment rate to its natural rate. What would you do?

- a) Increase government expenditures.
- b) Lower government expenditures.
- c) Increase taxes.
- d) Say there is nothing wrong with the economy and urge the Prime Minister to call an election.

A

101. Fluctuations in employment and output result from changes in:

- a) aggregate demand only.
- b) Short-run aggregate supply only.
- c) Aggregate demand and aggregate supply.
- d) Long-run aggregate supply

C

102. Which of the following is not considered to be a cost stemming from inflation?

- a) The crowding out effect
- b) Relative price variability and the mis-allocation of resources
- c) Tax distortions for interest income
- d) shoeleather costs

A

103. It is thought that Canadian public policy discourages saving. Which of the following is not a reason?

- a) Other things the same, taxes reduce the return from savings.
- b) means tested programs such as Old Age Security provide greater benefits to those who did not save.
- c) Some forms of capital income are taxed twice.
- d) The growth in the money supply has been too high

D

104. Proponents of tax-law changes to encourage saving would:

- a) argue that corporate tax rates should be increased.
- b) eliminate or reduce the means-tests for government benefits.
- c) argue that state sales tax should be replaced with state income tax.
- d) favour none of the above programs.

B or D

105. On April 21, 2009, the Bank of Canada is scheduled to make an announcement about its bank rate. On balance, given current economic conditions, one should expect:

- a) an increase in the bank rate.
- b) no change in the bank rate.
- c) a decrease in the bank rate.
- d) the announcement to be postponed.

C

106. Which of the following economic chains of events is correct?

- a) If interest rates in Canada fall relative to the rest of the world, there will be an outflow of financial capital, an increase in the demand for financial instruments in currencies other than the Canadian dollar, and a depreciation in the Canadian dollar.
- b) If interest rates in Canada rise relative to the rest of the world, there will be an outflow of financial capital, an increase in the demand for financial instruments in currencies other than the Canadian dollar, and a depreciation in the Canadian dollar.
- c) If interest rates in Canada fall relative to the rest of the world, there will be an inflow of financial capital, an increase in the demand for financial instruments in currencies other than the Canadian dollar, and a depreciation in the Canadian dollar.
- d) none of the above, because interest rates are unrelated to exchange rates

A

107. What is the relationship between exchange rates and the trade balance, all other factors held constant?

- a) a depreciation of the loonie causes our exports to become less competitive, but makes our imports cheaper, thus causing a fall in net exports.
- b) a depreciation of the loonie causes our exports to become more competitive, but makes our imports more expensive, thus causing a fall in net exports
- c) a depreciation of the loonie causes our exports to become more competitive, but has no impact on our imports, thus causing a fall in net exports
- d) a depreciation of the loonie causes our exports to become more competitive, but makes our imports more expensive, thus causing a rise in net exports

B

108. Consider the money market involving the stock of money balances that we dealt with at the end of the term. Assume that the going rate of interest is above the equilibrium level. What adjustment process would we expect to occur?

- a) Due to the excess supply of money, there would be downward pressure on interest rates, which would not affect the quantity of money supplied, but would cause the quantity demanded for money holdings to rise. Eventually equilibrium would be restored.
- b) Due to the excess supply of money, there would be no change in the supply of money, but there would be a rightward shift in the demand to hold money balances. Eventually equilibrium would be restored.
- c) Due to the excess demand for money, there would be downward pressure on interest rates, which would not affect the quantity of money supplied, but would cause the quantity demanded for money holdings to fall. Eventually equilibrium would be restored.
- d) The central bank would intervene in order to bring the market back into an equilibrium state

A

109. Consider the money market involving the stock of money balances that we dealt with at the end of the term. Which of the following statements is true?

- a) As the interest rate rises, so does the supply money.
- b) As the interest rate rises, so does the demand for money.
- c) Firms and households and governments decide how much of their portfolios that want to hold in a liquid form.
- d) The quantity of money on the horizontal axis includes monetary aggregates in illiquid form.

C

110. The report from the Task Force on Competitiveness, Productivity, and Economic Progress emphasizes which of the following policy measures in order to boost living standards?

- a) streamlining regulation
- b) investing in infrastructure
- c) subsidizing innovation
- d) lower taxes on firms' capital and profits

D

111. Using the yardstick of GDP per capita, which of the following statements is true?

- a) Ontario's economy ranks toward the bottom among a peer group of 15 most populous and prosperous international regions.
- b) Ontario's economy has gained a lot of ground compared to similar jurisdictions in Europe over the past two decades.
- c) Ontario's economy has lost a lot of ground compared to similar jurisdictions in Europe over the past two decades.
- d) Ontario's economy has lost a lot of ground compared to similar jurisdictions in North America over the past two decades.

D

112. The report from the Task Force on Competitiveness, Productivity, and Economic Progress notes that all of the following are challenges that should be faced EXCEPT:

- a) excessive government spending
- b) shared complacency regarding the improvement of productivity
- c) misplaced taxation
- d) placing a premium on creativity and innovation.

A

113. The article that I posted that was produced by Citigroup emphasized all of the following sectors of the macroeconomy except:

- a) the foreign trade sector
- b) the employment market
- c) the goods and services market
- d) the money market

D